

FEDERAL DISTRICT BASIC SANITATION PROGRAM

(BR-0345)

EXECUTIVE SUMMARY

Borrower:	Federal District of the Federative Republic of Brazil	
Guarantor:	Federative Republic of Brazil	
Executing agency:	Department of Infrastructure and Works of the Federal District Government	
Amount and source:	IDB (OC):	US\$130 million
	Local:	US\$130 million
	Total:	US\$260 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	Currency pool
Objectives:	<p>The general objective is to improve sanitation for the inhabitants of the Federal District by expanding the existing sanitation infrastructure and strengthening the service providers. This will be achieved through the following specific objectives:</p> <ol style="list-style-type: none"> a. Expand coverage and improve management of water supply, sanitary sewerage, and wastewater treatment services. b. Expand current stormwater collection and drainage coverage. c. Support the establishment of an adequate framework for environmental management and the efficient provision of water supply, sanitary sewerage, and wastewater treatment and disposal services. 	
Description:	The program totals US\$260 million and is broken down into three subprograms.	

Subprogram 1: Increasing coverage and improving management of water, sewerage, and wastewater treatment services. The direct cost of this subprogram is US\$81.2 million, and it has three components:

- a. **Water supply.** Investments for this component total US\$36.3 million and involve rehabilitation works for the Brasilia water treatment plant, improvements to the Contagem-Sobradinho conduit, construction of the Contagem-Paranoazinho-Sobradinho water treatment plant, construction and improvement of supply systems for various low-income housing complexes, the sectorization and upgrading of distribution systems in Lago Sul, and the completion of the Pipiripau water supply system;
- b. **Wastewater.** The investment for this component is US\$43.4 million to build the sewerage systems, pumping stations, and intercepting sewers for the localities of Gama, Planaltina, Lago Sul and Lago Norte, and the treatment plants for wastewater and outfalls from the Melchior and Gama systems; and
- c. **Increasing efficiency.** The investment for this component is US\$1.4 million, to be divided among three activities. The first is the preparation of a strategic planning study to modernize the business sector and improve customer service and the overall organization of the enterprise. This study is expected to make concrete recommendations on increasing efficiency, including the necessary recommendations on reducing staff size. The second activity supports the sale of shares of up to 49% of its capital to the private sector, a process in which Companhia de Saneamento do Distrito Federal [Federal District Sanitation Company] (CAESB) is involved. This process is expected to provide shareholders with adequate market incentives for adopting the efficiency-enhancing measures identified in the strategic planning study. These advisory services would calculate the value of the shares, make a recommendation as to the format and characteristics of the sale, and provide support for CAESB throughout the process. The third activity is the preparation of the CAESB master water and sewerage plan.

Subprogram 2: Flooding and erosion control. The subprogram has a direct cost of US\$114 million and includes road paving and storm drainage works in the localities of Santa Maria, Samambaia, São Sebastião, Recanto das Emas, and Riacho Fundo II.

Subprogram 3: Improving the regulatory framework for public utilities, water resources management, and environmental management. The direct cost of this subprogram is US\$4.7 million. It involves: (i) establishing a regulatory agency for water supply and sanitation services, including nonrecurring expenses for the launching of a small, efficient, and independent regulatory agency; (ii) establishing the Water Resources Regulatory Agency and implementing the Federal District water resources program, which includes an integrated water resources management and monitoring plan; (iii) implementing the Federal District environmental management program, which includes plans to monitor the Lake Paranoá basin and protect the Aguas Emendadas Ecological Reserve; and (iv) implementing the institutional development program of the Federal District Environment and Water Resources Department (SEMARH), which includes environmental education and human resources training programs.

The Bank's country and sector strategy:

The Bank's action in Brazil over the 2000-2003 period will focus on four strategic areas: modernization of the State, competitiveness, poverty, and the environment. The Bank will be deepening its action in the area of administrative and fiscal modernization; will support efforts to recover investment levels and establish appropriate regulatory frameworks; will support furthering social sector reform; and, in the sanitation sector, will continue to support the establishment of regulatory frameworks, access to services for broad sectors of the population, private-sector participation, increased efficiency in service delivery, and environmental protection. On the environmental front, emphasis will be placed on urban sanitation and environmental pollution in general. The proposed program is therefore consistent with the strategy decided on by the Bank and the country, since it promotes the establishment of a regulatory agency, supports private-sector participation through the sale of CAESB shares, helps to improve the quality of life of the low-income population by improving public water supply, sanitation, and storm drainage services, and includes projects aimed at preserving and improving the environment, by treating wastewater and strengthening the environmental control agency.

Environmental and social review:

The works to be performed under the project will help improve the hygienic conditions, health, and well-being of the communities. The works are localized and well-defined. The impact mitigation measures have been identified and their estimated costs have been included in the program costs. Licenses were applied for in accordance with current legislation. The program's environmental management strategy is to prepare for, prevent, reduce, eliminate, and offset the negative impacts whenever possible and optimize the positive ones.

Accordingly, program management efforts include: training for stakeholders, environmental licensing of works, implementation of environmental control plans, and plans for recovery of degraded areas for each work, as well as monitoring and follow-up. Pursuant to Federal District law, the environmental impact assessments (EIAs) for the sanitation programs were presented to the communities at a public hearing and were transmitted to the Public Information Centers (PICs) (at Headquarters and in the Country Office in Brazil) on 29 July 2000. The social and environmental impact report was approved by the Committee on Environment and Social Impact's Technical Review Group (CESI/TRG) on 22 September 2000, and the committee's recommendations were duly incorporated into this operation (paragraphs 3.20 and 3.21).

Benefits:

The main program benefit is the improvement in basic sanitation services in the Federal District. For the population there, this translates into better coverage of water supply and sewerage services, proper discharge of wastewater, fewer incidences of flooding caused by heavy rain, and better control of soil erosion.

These benefits are obtained not only through the new infrastructure, but also through the institutional support lent to the responsible agencies, by both increasing efficiency in service provision and supporting planning to allow for effective expansion in the future.

At the same time, the program will help to establish and strengthen an appropriate regulatory framework that ensures suitable quality in service delivery. This regulatory framework, together with the proposed financial-sustainability measures, should be sufficient to guarantee that the improvements made are sustainable.

Risks:

Risks related to the financial sustainability of the services have been identified that could affect program success. In the past, both the Federal District Government and the CAESB have experienced financial difficulties, which have an inevitable impact on the quality of the services provided. The Federal District Government rescheduled its existing debt and improved tax collection; and CAESB raised rates in both 1997 and 1999. As a result, the aforementioned financial difficulties have been overcome.

The risk of the Federal District Government again experiencing financial difficulties that impact the counterpart contributions and the availability of funds to properly maintain the storm drainage infrastructure is mitigated by the District government's current sound position and the performance agreement signed with the federal government for maintaining and improving the infrastructure.

The risk of the CAESB again having financial difficulties that would affect its ability to make the counterpart contribution and properly operate and maintain the facilities built under the program is mitigated by the recent rate change, the improvements in efficiency made as a result of the strategic planning study, and the influence of the private partner and regulatory agency for maintaining suitable efficiency in delivering services.

Lastly, risks of a regulatory nature have been offset by actions included in the program and the issuing of a decree that will define the organization of the regulatory agency and will ensure its independence, before the sale of shares begins. These actions are expected to promote the development of an appropriate system consistent with best practices in the area.

**Special
contractual
clauses:**

Prior to the first disbursement:

- a. Presentation of the agreements signed between: (i) the Federal District Government and CAESB on the transfer of funds and execution of the sanitation works; and (ii) the Federal District Government and NOVACAP on executing the storm drainage and paving works (paragraph 3.7).
- b. Signature of the agreement to guarantee that CAESB will repay the loan to the Federal District Government (paragraph 5.19).
- c. Creation of the program management unit (PMU) and the CAESB and NOVACAP local management units (LMUs) and appointment of the personnel decided on with the Bank (paragraphs 3.3, 3.4, and 3.6).
- d. Bid allocation for the consulting firm that will advise the PMU and LMUs on the planning and execution of program activities (paragraph 3.6).

Other special conditions that will be included in the contract are:

- e. Within 18 months of the signature of the contract, present evidence that a firm has been hired to prepare the integrated water resources management plan, the environmental monitoring plan for the Paranoá basin, the Federal District water resources monitoring program, and the standardization and optimization of environmental methods and multimedia environmental education (paragraph 3.9).
- f. Prior to calls for bids for each of the works, present evidence that building permits have been obtained and the bidding documents

include the environmental control measures for the construction phase required by SEMARH (paragraph 3.20).

- g. Within 24 months of the signature of the contract, evidence that establishment of the district water agency has begun, with personnel appointed and its operating budget allocated (paragraph 3.19).
- h. Prior to contracting consulting services to set up the water supply and sewerage regulation unit, the decree defining the organization of the public utilities regulatory agency of the Federal District and ensuring the independence of the regulatory agency will have been issued (paragraph 3.11).

Social equity and poverty reduction classification:

This operation qualifies as a social-equity enhancing program, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore this operation qualifies as a poverty-targeted investment (PTI), since an estimated 53% of the beneficiaries are low-income persons (paragraph 5.41). The borrower will not be using the 10 percentage points in additional financing.

Exceptions to Bank policy:

In keeping with the request of the Government of Brazil, the guarantee contract to be entered into will not include a guarantee by the federal government to contribute the local counterpart resources or to be accountable for the borrower's obligations to perform that are not the legal competence of the federal government. This decision was taken bearing in mind the country's constitutional and legal provisions on administrative decentralization, as well as the government policy seeking to make government spending more disciplined.

Procurement:

Bank policy on procuring goods, contracting works, and hiring consulting services to be financed using program resources will be applied. When Bank resources are used, international competitive bidding will be required for procurements over US\$5 million for works and US\$350,000 for goods and related services. The threshold over which international competitive bidding will be required for engaging consulting services is US\$200,000.